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## New Zealand

### Livestock and Products

### Annual

### 2005

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**Report Highlights:**

New Zealand's beef export volume in 2006 is forecast to increase 7 percent to 615,000 tons. The New Zealand Food Safety Authority (NZFSA) recently completed an assessment of the U.S. BSE regime and determined that U.S. safeguards were equivalent to those provided by New Zealand's BSE measures. Following certification agreement, NZFSA will remove its case-by-case assessment requirement for imports of U.S. beef and beef variety meats.

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Wellington [NZ1]  
[NZ]

**SECTION I. SITUATION AND OUTLOOK**

New Zealand's total cattle slaughter in 2006 is forecast at 725,000 tons, 6 percent above a year earlier.<sup>1</sup> Beef exports in 2006 are forecast to increase to 615,000 tons. Higher adult cattle slaughter rates resulting from increased calf retention for beef production in 2004 is the dominant factor influencing increased beef production. The calf kill is forecast to increase slightly in 2006 as a result of lower retentions for future beef production, as many industry analysts are forecasting a softening of beef prices in 2006. Overall, beef breeding cow numbers continue to trend downwards, with a decline of 2 percent projected for next year. Nevertheless, New Zealand's beef exports continue to grow, fueled by increasing supplies of beef sourced from New Zealand's expanding dairy herd.

Beef exports to New Zealand's three main Asian markets (South Korea, Taiwan and Japan) have grown markedly following the discovery of bovine spongiform encephalopathy (BSE) in the United States and Canada. These three markets accounted for no more than 15 percent of New Zealand's beef export volume and value in 2002. In 2004, however, cumulative sales to these markets doubled to approximately 30 percent of total shipping volume and value. Beef exports to the United States over the past two years have been largely unaffected. High value cuts are generally sent to Asian markets, while the United States primarily receives New Zealand's manufacturing grade beef.

The re-entry of U.S. and Canadian beef into Asian markets will negatively impact New Zealand exports. New Zealand will strive to retain market share that has been gained during the absence of U.S. and Canadian beef. Meat and Wool New Zealand (MWNZ) is projecting an increase in levy expenditure on promotion from NZ\$ 3.94 million during 2004/05, to NZ\$ 4.84 million during the 2005/06 season. MWNZ is primarily targeting South Korea, Taiwan and Japan. MWNZ is trying to solidify market share gains in these markets before Canadian and U.S. exporters are again granted access.

The New Zealand Food Safety Authority (NZFSA) recently completed an assessment of the U.S. BSE regime and determined that U.S. safeguards were equivalent to those provided by New Zealand's BSE measures. Following certification agreement, NZFSA will remove its case-by-case assessment requirement for imports of U.S. beef and beef variety meats. This action was taken following the December 2003, announcement of BSE in the United States.

A livestock industry working group has been created in New Zealand to review options for cattle and deer identification. The group released a consultation report in July 2005. The public comment period for the report closes at the end of September 2005. The working group was established in response to a recognized need for the implementation of a comprehensive, mandatory traceability system. This will respond to increasingly stringent regulatory systems and consumer demands related to biosecurity and food safety issues in overseas markets.

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<sup>1</sup> Carcass weight equivalents

## SECTION II. PS&amp;D TABLES AND TRADE MATRIX

## PS&amp;D TABLES

New Zealand - Animal Numbers, Cattle						
	2004	Revised	2005	Estimate	2006	(1000 HEAD) Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	01/2004		01/2005		01/2006	
Total Cattle Beg. Stks	9540	9540	9415	9415	9535	9575
Dairy Cows Beg. Stks	3966	3966	4005	4005	0	4050
Beef Cows Beg. Stocks	1230	1230	1180	1220	0	1200
Production (Calf Crop)	4450	4450	4460	4460	0	4500
Intra EC Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	13990	13990	13875	13875	9535	13975
Intra EC Exports	0	0	0	0	0	0
Total Exports	69	60	50	50	0	50
TOTAL Exports	69	60	50	50	0	50
Cow Slaughter	900	900	800	800	0	850
Calf Slaughter	1380	1380	1400	1550	0	1600
Other Slaughter	1800	1800	1660	1610	0	1780
Total Slaughter	4080	4080	3860	3960	0	4230
Loss	426	435	430	430	0	430
Ending Inventories	9415	9415	9535	9575	0	9595
TOTAL DISTRIBUTION	13990	13990	13875	14015	0	14305
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

<b>New Zealand - Meat, Beef and Veal</b>						
	(1000 MT CWE)					
	<b>2004</b>	<b>Revised</b>	<b>2005</b>	<b>Estimate</b>	<b>2006</b>	<b>Forecast</b>
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
<b>Market Year Begin</b>		01/2004		01/2005		01/2006
<b>Slaughter (Reference)</b>	4080	4080	3860	3960	0	4230
<b>Beginning Stocks</b>	0	0	0	0	0	0
<b>Production</b>	720	720	675	685	0	725
<b>Intra EC Imports</b>	0	0	0	0	0	0
<b>Total Imports</b>	12	10	10	10	0	10
<b>TOTAL Imports</b>	12	10	10	10	0	10
<b>TOTAL SUPPLY</b>	732	730	685	695	0	735
<b>Intra EC Exports</b>	0	0	0	0	0	0
<b>Total Exports</b>	606	610	565	575	0	615
<b>TOTAL Exports</b>	606	610	565	575	0	615
<b>Human Dom. Consumption</b>	126	120	120	120	0	120
<b>Other Use, Losses</b>	0	0	0	0	0	0
<b>TOTAL Dom. Consumption</b>	126	120	120	120	0	120
<b>Ending Stocks</b>	0	0	0	0	0	0
<b>TOTAL DISTRIBUTION</b>	732	730	685	695	0	735
<b>Calendar Yr. Imp. from U.S.</b>	0	0	0	0	0	0
<b>Calendar Yr. Exp. to U.S.</b>	305	305	280	280	0	300

**TRADE MATRIX – BEEF EXPORTS**

<b>Trade Matrix, New Zealand Beef Exports</b>					
	<b>Calendar Year</b>			<b>January - June</b>	
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2004</b>	<b>2005</b>
<b>United States</b>	202798	222113	212431	144664	122793
<b>Korea South</b>	19013	27625	50951	33257	27895
<b>Japan</b>	18207	20915	38146	20917	27735
<b>Taiwan</b>	14868	22221	30372	18440	17247
<b>Canada</b>	41546	41718	29494	19540	24208
<b>Indonesia</b>	4150	9015	12421	5896	7621
<b>Malaysia</b>	5595	6878	7738	4649	5029
<b>French Polynesia</b>	5930	5563	5812	3107	2773
<b>Mexico</b>	3278	6667	5794	3745	5095
<b>Australia</b>	1980	2942	5287	2025	4007
<b>Other</b>	21987	25771	25725	15110	11401
<b>Total</b>	339352	391428	424171	271350	255804

Source for PS&D and Trade Statistics: Statistics New Zealand, Ministry Of Agriculture and Forestry, Meat and Wool NZ, FAS Wellington Estimates.

## SECTION III. SUPPLY AND DEMAND, POLICY AND MARKETING

### BEEF AND VEAL PRODUCTION

#### 2006 Outlook

New Zealand's total cattle slaughter is forecast to increase 6 percent to 725,000 tons<sup>2</sup> in 2006. Beef exports are forecast to increase 7 percent to 615,000 tons. Higher adult cattle slaughter rates resulting from increased calf retention for beef production in 2004 is the dominant factor influencing increased beef production. The calf kill is forecast to increase slightly in 2006 as a result of lower retentions for future beef production, as many industry analysts are forecasting a softening of beef prices in 2006. The cow kill is forecast to rise slightly, returning to a level similar to that of 2003 and 2004.

Despite these predictions, continuing uncertainty surrounding international beef markets have made it difficult for the New Zealand beef industry to forecast what will happen in 2006. New Zealand's beef industry is a price taker, and will respond to sales conditions in the U.S. market as well as the re-entry of U.S. and Canadian beef into Asian markets. The re-entry of U.S. and Canadian beef into Asian markets will negatively impact New Zealand exports and New Zealand will fight to retain market share that has been gained during the absence of U.S. and Canadian beef. In the U.S. market, although it is anticipated that prices will decline in 2006, this will be offset to some extent if the New Zealand dollar weakens against the U.S., as many analysts have forecast.

Overall, beef breeding cow numbers continue to trend downwards, with a forecast decline of nearly 2 percent in 2006. Despite this, New Zealand's beef exports continue to grow, fueled by increasing quantities of beef sourced from New Zealand's expanding dairy herd. The dairy herd's rate of expansion has slowed during the past couple of years, increasing the number of animals sent to slaughter. New Zealand's beef industry has become very dependent on the dairy herd as a source of animals, not only for immediate processing, but also for calves to be raised over a period of between 18 months and two years for beef production.

#### 2005 Review

New Zealand's total cattle slaughter for 2005 has been revised (see NZ5003 for previous figures), with an estimated decline of 5 percent from 2004 to 685,000 tons. As a result, exports are estimated to decline 6 percent to 575,000 tons. This is due to kill numbers for the first half of 2005 being slightly higher than were forecast at the beginning of the year. Breeding beef cow numbers have also been re-estimated for 2005, decreasing nearly 1 percent to 1220 head, following the availability of updated statistics.

Beef production in 2005 is lower than a year earlier mainly due to lower retentions of calves for beef production in 2003. The cow kill is also lower, despite some industry analysts stating that there have been a higher number of dairy cows that aren't in calf in 2005, which would usually increase cull numbers. In fact, the cow cull between March and June when such cows are culled is lower than the same period in 2004. Some analysts feel that the reason for the lower kill may be the need to retain more cows than usual for herd rebuilding as a large number of cows (22,400) were exported to China in 2004. The large number of live animal exports has continued in the first half of 2005, although the majority have gone to Mexico instead of China. Most of these cows are dairy cows. Overall, finished cattle are in short

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<sup>2</sup> All tonnages are in carcass weight equivalents

supply in New Zealand during 2005, inhibiting the ability of the industry to take advantage of continuing good returns in international markets.

## Beef Demand

New Zealand beef earns few price premiums in most export markets because it is grass-fed. Before the detection of bovine spongiform encephalopathy (BSE) in North America, limited export volumes in comparison to Australia, Canada and the United States relegated New Zealand to being a price taker in its main export markets. With more than 80 percent of New Zealand's beef production marketed in export channels, world markets heavily influence New Zealand beef prices and producer returns. As the U.S. market accepts approximately 50 percent of New Zealand's beef exports, New Zealand beef prices generally follow those of the United States. The remainder of New Zealand's export supply is shared primarily amongst (in descending order of market size) South Korea, Taiwan, Japan and Canada.

New Zealand's three main Asian markets have grown strongly in importance following the discovery of BSE in the United States and Canada. In 2002 they only accounted for approximately 15 percent of New Zealand's beef exports by volume and value. In 2004, however, this demand had doubled to approximately 30 percent by volume and value. Beef exports to the United States over the past two years have been largely unaffected, as high value cuts are sent to Asian markets, while the U.S. primarily receives New Zealand's manufacturing beef. Prices and demand have remained strong, despite the detection of BSE. New Zealand usually fills its annual export quota of 213,402 tons (product weight) to the U.S., negating the opportunity to expand in this market. The Canadian market has limited imports of New Zealand beef since the detection of BSE, dropping it from second to fifth largest market for New Zealand beef.

A large proportion of New Zealand's beef production is used as manufacturing-grade processed meat. The U.S. market has traditionally received 75 percent of New Zealand's ingredient beef production, which is mixed with American ground beef (hamburger) to reduce the fat percentage of the resulting product. New Zealand generally sells two-thirds of its secondary beef production to the U.S. for use in items such as pastrami. This is an important market for New Zealand because it provides an outlet for its lower value beef cuts that are difficult to sell in other markets.

## POLICY

### BSE

The New Zealand Food Safety Authority (NZFSA) recently completed an assessment of the U.S. BSE regime and determined that U.S. safeguards were equivalent to those provided by New Zealand's BSE measures. Following certification agreement, NZFSA will remove its case-by-case assessment requirement for imports of U.S. bovine products. This follows New Zealand restricting imports of U.S. beef and beef variety meats following the December 2003, announcement of BSE in the United States. Import restrictions were also imposed on live cattle, certain pet food, and U.S. processed food products containing beef. A country assessment review by the Ministry of Agriculture and Forestry (MAF) is also underway which will permit a re-instatement of New Zealand's Import Health Standard (IHS) for U.S. live cattle and a resumption of trade. New Zealand's IHS's can be found at:

<http://www.biosecurity.govt.nz/imports/ihs-search.htm>

Due to the importance of the U.S. market, New Zealand immediately complied with USDA measures for beef slaughter and processing, implemented following the detection of BSE in the U.S. Because New Zealand is a BSE-free country, officials argue that the application of these new BSE-related measures to its beef products entering the United States is unjustified. New Zealand requested that USDA modify the application of these rules for New Zealand beef products on the basis of an equivalency program when they were implemented, i.e. accepting New Zealand safeguard measures as a BSE-free country. USDA has not yet responded to this request.

Concurrently, the NZFSA is reviewing New Zealand's BSE measures relating to cattle imports from all countries. The NZFSA's review is motivated by the OIE's recent update of its BSE guidelines, which the NZFSA wants to remain consistent with. The NZFSA review will include several government agencies, with completion expected in September 2005. The changes in the OIE guidelines are aimed to shift the focus from the prevalence of BSE within a given country as a consideration for safe trade to having more emphasis on effective risk mitigation measures, which can guarantee the safety of beef and other ruminant products from a country regardless of its BSE risk status. Two key changes were made. First is the reduction of country risk categorization categories from 5 to 3 and to have more emphasis placed on safe SRM removal versus animal disease management measures when assessing a country's risk categorization. Secondly was adding boneless beef ('deboned skeletal muscle meat') to the list of products considered safe for trade regardless of the BSE status of the supplying country.

### **New Zealand's Animal Identification System**

A livestock industry working group has been created in New Zealand to review options for cattle and deer identification. The group released a consultation report in July 2005, which is available on the Meat and Wool New Zealand (MWNZ) website at: [www.meatandwoolnz.com](http://www.meatandwoolnz.com). The opportunity for public submissions on this report close at the end of September 2005. The working group has been set up in response to the need for the implementation of a comprehensive mandatory traceability system, due to increasingly stringent regulatory systems and consumer demands now and in the future in response to food safety and biosecurity issues. Farmer politics have in the past slowed this process due to debate over who will bear the cost, who will benefit and who should lead implementation. This may have changed to some extent as a recent Foot and Mouth Disease (FMD) hoax in New Zealand has emphasized the need for a robust traceability system to the industry.

New Zealand currently has two identification systems for cattle in place. Livestock Improvement's breeding database has 97 percent of New Zealand's dairy herd catalogued. Additionally, a mandatory animal identification system originally created to help combat bovine tuberculosis (Tb) and administered by New Zealand's Animal Health Board (AHB) is in place. Animals are required to be officially tagged when they move off farm – either to be sold to another farmer or to go to the meat processor. However they can be tagged prior to this - the AHB's recommendation is that tagging occur at weaning. Tagging at birth is not required and animals less than one month of age do not require tagging when they move farm. The ear tags need to be tamper-proof and carry the animal's official herd number (as well as other information and a barcode) to allow trace-back by the AHB if necessary. The tags of imported animals are replaced with an official tag.

Additional information on New Zealand's official tagging system can be found at: <http://www.ahb.org.nz/AHBWebsite/Essentials/OfficialEarTags/1.2+Ear+tags.htm>

## China

In February 2005 China advised New Zealand that it would register all 26 New Zealand integrated meat premises (slaughter, processing and storage on one site) wanting to export beef and sheep meat to China. Registration will allow these plants to export products direct to retail. This may have partially resolved China's earlier refusal in June 2004 to issue new import permits for New Zealand beef not produced in plants inspected by Chinese inspectors (see NZ4014). Chinese officials have not inspected all 26 plants, which the New Zealand government states indicates that they accepted New Zealand Food Safety Authority assurances on standards. Registration has not yet, however, been granted for beef produced in non-integrated sites.

Trade and economic framework discussions for a Free Trade Agreement (FTA) with China were initiated in January 2004. This followed the release of a joint New Zealand/China feasibility study that concluded a FTA would benefit both countries. The third round of FTA negotiations was held in May 2005. As negotiations are still in their early stages, the two parties have not yet discussed a timeframe for their completion. New Zealand's efforts to reach a trade accord with China were enhanced by its willingness to meet China's demand to be recognized as a market economy. This provides China with relief from the anti-dumping provisions it accepted when it joined the WTO.

## Malaysia

In June 2005, following the results of an audit in May, Malaysia suspended accreditation of many New Zealand processing plants. Malaysia stated that this was the result of inconsistent halal standards in these plants. New Zealand's halal certifying authorities have stated that products produced in New Zealand in accordance with the halal standard fulfils the requirements of the Islamic Shariah (law). As of the end of August, New Zealand is still seeking clarification as to the reasons behind suspension of the accreditation of affected plants. Malaysia was New Zealand's seventh largest market for beef products in 2004, taking over 7700 tons.

New Zealand and Malaysia are currently in negotiations for the formation of a FTA. Negotiations are expected to be completed by mid-2006. The second round of negotiations were held in July 2005, with the third round scheduled for September 2005. This process resulted from a bilateral meeting between the two countries at an ASEAN meeting in 2004.

## Beneficial Trade Agreements

New Zealand has either completed, or is currently involved in, FTA negotiations with countries other than China and Malaysia. In December 2004, New Zealand and Thailand announced the conclusion of negotiations on a Closer Economic Partnership (CEP). Both countries signed the legal text and schedules in April, with the agreement entering into force on July 1, 2005. Implementation resulted in 52 percent of New Zealand's exports to Thailand becoming tariff-free, in comparison to 4 percent prior to the agreement. Thailand currently accounts for only a minor amount of New Zealand's beef exports.

New Zealand, Australia and the Association of Southeast Asian Nations (ASEAN) began negotiations for a FTA in November 2004, with the first formal meeting held in February 2005. The parties agreed to aim for completion of negotiations in early 2007. ASEAN members already benefit from AFTA, a free trade zone among themselves. These negotiations build on AFTA-CER, a CEP between New Zealand, Australia and ASEAN formed in



2000. Some of ASEAN's member countries take a significant amount of New Zealand's beef exports, especially Indonesia, Malaysia and Singapore.

## MARKETING

### Meat and Wool New Zealand Marketing

Meat and Wool New Zealand (MWNZ), New Zealand's farmer funded sheep and beef industry good body, is projecting an increase in levy expenditure on promotion from NZ\$ 3.94 million during 2004/05, to NZ\$ 4.84 million during the 2005/06 season. MWNZ is primarily targeting Japan, Korea and Taiwan, where demand has rapidly expanded since the detection of BSE in Canada and the United States in 2003. MWNZ is trying to solidify market share gains in these markets as much as possible before Canadian and U.S. exporters are granted access to them again.

MWNZ also aims to maintain demand for beef in the domestic market, as well as develop demand in key markets in South and East Asia. North America is not a focus of the industry good body's marketing efforts as mainly processing beef and some secondary cuts are sold to these markets. MWNZ's levy expenditure on marketing is run in conjunction with, and matched in value by, industry.

MWNZ is also projecting increased expenditure on trade policy issues for beef, from NZ\$ 870,000 in 2004/05 to NZ\$ 1.04 million in 2005/06. Trade policy issues include areas such as maintaining and increasing market access and supporting New Zealand's trade liberalization efforts in areas such as the WTO and bilateral trade agreements.

Additional information regarding MWNZ's marketing activities and the use of remaining levy income is available on the MWNZ website:

[www.meatandwoolnz.com](http://www.meatandwoolnz.com)

## SECTION IV. FURTHER INFORMATION

Ministry of Agriculture and Forestry  
[www.maf.govt.nz](http://www.maf.govt.nz)

Meat and Wool New Zealand  
[www.meatandwoolnz.com](http://www.meatandwoolnz.com)

Meat and Wool New Zealand statistics  
[www.nzmeatstats.co.nz](http://www.nzmeatstats.co.nz)

Animal Health Board  
<http://www.ahb.org.nz/AHBWebsite>